

**PROCEEDING BEFORE JANE L. CLINE,  
INSURANCE COMMISSIONER OF THE  
STATE OF WEST VIRGINIA**

**IN RE: MARKET CONDUCT EXAMINATION OF  
PANHANDLE FARMERS MUTUAL INSURANCE COMPANY  
OF WEST VIRGINIA.**

**ADMINISTRATIVE PROCEEDING NUMBER 07-AP-019**

**AGREED ORDER ADOPTING REPORT OF  
MARKET CONDUCT EXAMINATION, DIRECTING  
CORRECTIVE ACTION AND ASSESSING PENALTY**

NOW COMES Jane L. Cline, Insurance Commissioner of the State of West Virginia, and issues this Order which adopts the Report of Market Conduct Examination for the examination of Panhandle Farmers Mutual Insurance Company of West Virginia hereinafter referred to as PANHANDLE for the examination period ending December 31, 2005 based upon the following findings, to wit:

**PARTIES**

1. Jane L. Cline is the Insurance Commissioner of the State of West Virginia (the "Insurance Commissioner") and is charged with the duty of administering and enforcing the provisions of Chapter 33 of the West Virginia Code of 1931, as amended.
2. PANHANDLE is a Farmers' Mutual Fire Insurance Company authorized by the Insurance Commissioner to transact business in the State of West Virginia as permitted under Article 22, Chapter 33 of the West Virginia Code.

## **FINDINGS OF FACT**

1. A Market Conduct Examination of the methods of doing business of PANHANDLE for the three year period ending December 31, 2005, was conducted in accordance with West Virginia Code Section 33-2-9(c) by examiners duly appointed by the Insurance Commissioner.

2. On December 14, 2006, the examiner filed with the Insurance Commissioner, pursuant to West Virginia Code Section 33-2-9(j)(2), a Report of Market Conduct Examination.

3. On December 14, 2006, a true copy of the Report of Market Conduct Examination (attached hereto as Exhibit A) was sent to PANHANDLE by certified mail, return receipt requested, and was received by PANHANDLE on December 16, 2006.

4. On December 14, 2006, PANHANDLE was notified that, pursuant to West Virginia Code Section 33-2-9(j)(2), it had thirty (30) working days after receipt of the Report of Market Conduct Examination to file a submission or objection with the Insurance Commissioner.

5. On January 12, 2006, PANHANDLE responded to the Report of Market Conduct Examination ("PAN HANDLE's Response"). PAN HANDLE's Response is attached hereto as Exhibit B.

6. PAN HANDLE's Response did not dispute any facts pertaining to findings, comments, results, observations, or recommendations contained in the Report of Market Conduct Examination.

7. The findings contained in the Report of Market Conduct Examination reveal violations of West Virginia Code Sections 33-12-25(d)

8. The Insurance Commissioner has determined that the violations of the West Virginia Code and Rule sections referenced in paragraph 7 above were unintentional.

9. By entering into this Agreed Order, PANHANDLE reserves all rights and defenses regarding liability or responsibility in any proceedings regarding PANHANDLE other than proceedings, administrative or civil, to enforce this Order.

10. PANHANDLE waives notice of administrative hearing, any and all rights to an administrative hearing and to judicial review of this matter.

11. Any Finding of Fact that is more properly a Conclusion of Law is hereby adopted as such.

### **CONCLUSIONS OF LAW**

1. The Insurance Commissioner has jurisdiction over the subject matter of, and the parties to, this proceeding.

2. This proceeding is pursuant to and in accordance with West Virginia Code Section 33-2-9.

3. Any Conclusion of Law that is more properly a Finding of Fact is hereby incorporated as such.

### **ORDER**

Pursuant to West Virginia Code Section 33-2-9(j)(3)(A), following the review of the Report of Market Conduct Examination, the examination work papers, and PAN HANDLE's Response, the Insurance Commissioner and PANHANDLE have agreed to enter into this Agreed Order adopting the Report of Market Conduct Examination. The Insurance Commissioner and PANHANDLE have further agreed to the imposition of an administrative penalty against PAN HANDLE.

It is accordingly **AGREED** and **ORDERED** as follows:

The Report of Market Conduct Examination of Panhandle Farmers Mutual Insurance Company of West Virginia is hereby **ADOPTED** and **APPROVED** by the Insurance Commissioner;

That, within thirty (30) days of the entry date of this Agreed Order, PANHANDLE shall file with the Insurance Commissioner, in accordance with West Virginia Code Section 33-2-9(j)(4), affidavits executed by each of its directors stating under oath that they have received a copy of the adopted Report of Market Conduct Examination and a copy of this **AGREED ORDER ADOPTING REPORT OF MARKET CONDUCT EXAMINATION, DIRECTING CORRECTIVE ACTION AND ASSESSING PENALTY**;

That PANHANDLE shall ensure compliance with the West Virginia Code and the Code of State Rules. PANHANDLE shall specifically cure those violations and deficiencies identified in the Report of Market Conduct Examination. PANHANDLE is hereby ordered to file a Corrective Action Plan which will be subject to the approval of the Insurance Commissioner. The Corrective Action Plan shall detail PANHANDLE's changes to its procedures and/or internal policies to ensure compliance with the West Virginia Code and incorporate all recommendations of the Insurance Commissioner's examiner and address all violations specifically cited in the Report of Market Conduct Examination;

That the Corrective Action Plan outlined in this Order must be submitted to the Insurance Commissioner for approval within thirty (30) days of the entry date of this Agreed Order. PANHANDLE shall implement reasonable changes to the Corrective Action Plan if suggested by the Insurance Commissioner and the Insurance Commissioner will provide notice to PANHANDLE when the Corrective Action Plan has been approved; and

The Insurance Commissioner has determined that PANHANDLE shall pay an

administrative penalty to the State of West Virginia in the amount of One Thousand Dollars (\$1,000.00) for non-compliance with the West Virginia Code as described herein. The payment of this administrative penalty is in lieu of any other regulatory penalty or remedy.


THE PARTIES SO AGREE:

OFFICE OF THE INSURANCE COMMISSIONER  
FOR THE STATE OF WEST VIRGINIA

Dated this 2<sup>nd</sup> day of APRIL, 2007.

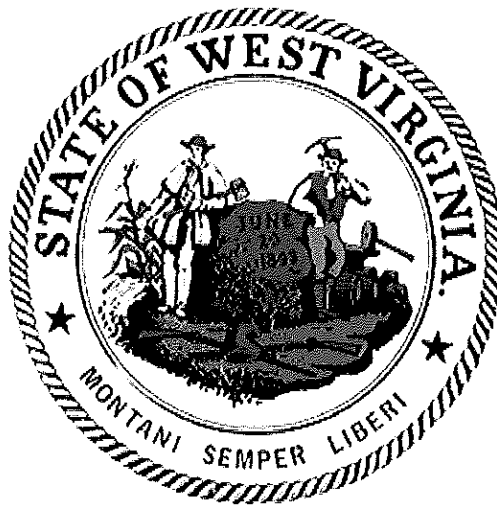
  
\_\_\_\_\_  
Jane L. Cline  
Insurance Commissioner

Panhandle Farmers Mutual Insurance Company of West Virginia.

  
\_\_\_\_\_  
Name ART MEADOWS  
Title PRESIDENT / CEO  
Date 4-2-07

# **Report of Market Conduct Examination**

As of December 31, 2005



## **PANHANDLE FARMERS MUTUAL INSURANCE COMPANY OF WEST VIRGINIA**

R. D. #1, Box 166A  
Moundsville, WV 26041

NAIC COMPANY CODE 10904

Examination Number WV014-M2

## TABLE OF CONTENTS

<b>EXECUTIVE SUMMARY .....</b>	<b>1</b>
<b>SCOPE OF EXAMINATION.....</b>	<b>1</b>
<b>HISTORY AND PROFILE .....</b>	<b>2</b>
<b>METHODOLOGY .....</b>	<b>3</b>
<b>A. COMPANY OPERATIONS/MANAGEMENT.....</b>	<b>4</b>
<b>B. COMPLAINT HANDLING.....</b>	<b>8</b>
<b>C. MARKETING AND SALES.....</b>	<b>10</b>
<b>D. PRODUCER LICENSING.....</b>	<b>11</b>
<b>F. UNDERWRITING AND RATING .....</b>	<b>12</b>
<b>G. CLAIMS PRACTICE.....</b>	<b>19</b>
<b>SUMMARY OF RECOMMENDATIONS.....</b>	<b>26</b>
<b>EXAMINER'S SIGNATURE AND ACKNOWLEDGEMENT .....</b>	<b>27</b>
<b>EXAMINER'S AFFIDAVIT.....</b>	<b>28</b>

February 15, 2007

The Honorable Jane L. Cline  
West Virginia Insurance Commissioner  
1124 Smith Street  
Charleston, West Virginia 25301

Dear Commissioner Cline:

Pursuant to your instructions and in accordance with W.Va. Code §33-2-9, an examination has been made as of December 31, 2005 of the business affairs of

**PANHANDLE FARMERS MUTUAL INSURANCE COMPANY  
OF WEST VIRGINIA**  
R. D. #1, Box 166A  
Moundsville, WV 26041

hereinafter referred to as the "Company." The following report of the findings of this examination is herewith respectfully submitted.



## **EXECUTIVE SUMMARY**

This examination is the first market conduct examination of PanHandle Farmers Mutual Insurance Company of West Virginia. The examination fieldwork began November 6, 2006, and concluded on December 15, 2006 with the submission of the Company's last response to a request for information by the examiner. Of the forty-one (41) standards tested, the Company passed forty (40) and failed one (1). Two (2) passing areas warranted a recommendation. The major area of concern is:

The Company does not provide a letter of termination to producers other than those terminated for cause.

## **SCOPE OF EXAMINATION**

The basic business areas that were examined under this examination were:

- A. Company Operations/Management
- B. Complaint Handling
- C. Marketing and Sales
- D. Producer Licensing
- F. Underwriting and Rating
- G. Claims

Each business area has standards that the examination measured. Some standards have specific statutory guidance, others have specific company guidelines, and yet others have contractual guidelines.

The focus of the examination was on the methods used by the Company to manage its operations for each of the business areas subject to this examination. This includes an analysis of how the Company communicates its instructions and intentions to its lower echelons, how it measures and monitors the results of those communications, and how it reacts to and modifies its communications based on the resulting findings of the measurement and monitoring activities. The examiners also determine whether this process is dynamic and results in enhanced compliance activities. Because of the predictive value of this form of analysis, focus is then made on those areas in which the process used by management does not appear to be achieving appropriate levels of statutory and regulatory compliance. Most areas are tested to see if the Company is in compliance with West Virginia statute and rules.

This examination report is a report by test, rather than a report by exception, and all standards tested are described and the results indicated.

## **HISTORY AND PROFILE**

The Company was formed on April 1, 1897 when a group of six local farmers in Ohio County, West Virginia started an insurance company for the farming community. The West Virginia Department of Insurance issued a charter dated February 10, 1898 and Panhandle Farmers Mutual Insurance Company of West Virginia became a company. The original location of the home office was Clinton, West Virginia in Ohio County. For many years, the writing territory was confined to the northern panhandle of West Virginia which is the basis for the Company name. The original product line was Fire and Lightning Coverage on Standard Fire policies.

For the first fifty (50) years the Company showed modest growth and restricted its writings to the northern panhandle of West Virginia. After that period, the Company began expanding its writing territory to other counties in the State. This practice continued for another twenty (20) years.

In the early seventies, the Company's writing was expanded to include Homeowners, Mobile Homeowners, Farms and small Commercial type risks. Currently, the writing territory has been increased to include all of West Virginia. On October 3, 1987 the Company moved to its current location south of Moundsville, West Virginia in Marshall County.

The Company is managed by a board of six (6) Directors. The following were the Directors on the Board as of December 31, 2005:

Arthur L. Meadows - President and CEO  
Charles B. Davis Jr. - Secretary and Treasurer  
K. Wayne Simmons - Vice President  
James L. Reid  
James P. Reid  
Donald Mason

## METHODOLOGY

This examination is based on the standards and tests for a market conduct examination of a property and casualty insurer found in Chapter VIII of the NAIC Market Conduct Examiners Handbook and on applicable West Virginia statutes and rules.

Some of the standards were measured using a single type of review, while others used a combination or all types of review. The types of review used in this examination fall into three general categories: Generic, Sample, and Electronic.

A “Generic” review indicates that a standard was tested through an analysis of general data gathered by the examiner, or provided by the examinee in response to queries by the examiner.

A “Sample” review indicates that a standard was tested through direct review of a random sample of files generated by automated sampling software. The statistical tests that result from these samples are based on a 95% confidence level with *Poisson* distribution. For evaluation of compliance with any given standard, an error (exception) tolerance level of 7% was used for claims and a 10% tolerance level was used for other types of review.

An “Electronic” review indicates that a standard was tested through use of a computer program or routine applied to a download of computer records provided by the examinee. This type of review typically reviews 100% of the records of a particular type.

Standards were measured using tests designed to adequately measure how the Company met certain benchmarks. The various tests utilized are set forth in the NAIC Market Conduct Examiners Handbook for a property and casualty insurer. Each standard applied is described and the result of testing is provided under the appropriate standard. The standard, its statutory authority under West Virginia law, and its source in the NAIC Market Conduct Examiners Handbook are stated and contained within a bold border.

Each standard is accompanied by a “Comment” describing the purpose or reason for the standard. “Results” are indicated, examiner’s “Observations” are noted, and in some cases, a “Recommendation” is made. Comments, Results, Observations and Recommendations are kept with the appropriate standard.

## **A. COMPANY OPERATIONS/MANAGEMENT**

**Comments:** The evaluation of standards in this business area is based on a review of Company responses to information requests, questions, interviews, and presentations made to the examiner. This portion of the examination is designed to provide a view of what the Company is and how it operates and is not based on normally sampling techniques, but rather the Company's procedures. This review is not intended to duplicate a financial examination review but is important in establishing an understanding of the examinee. Many troubled companies have become so because management has not been structured to adequately recognize and address the problems that can arise. Well-run companies generally have processes that are similar in structure. While these processes vary in detail and effectiveness from company-to-company, the absence of them or the ineffective application of them is often reflected in failure of the various standards tested throughout the examination. The processes usually include:

- A planning function where direction, policy, objectives and goals are formulated;
- An execution or implementation of the planning function elements;
- A measurement function that considers the results of the planning and execution; and
- A reaction function that utilizes the results of measurement to take corrective action or to modify the process to develop more efficient and effective management of its operations.

### **Standard A 1**

*NAIC Market Conduct Examiners Handbook – Chapter VIII, § A, Standard 1*

**The company has an up-to-date, valid internal or external audit program.**

*W.Va. Code §§ 33-33-3 & 33-33-4*

**Comments:** The review methodology for this standard is generic. The standard has a direct statutory requirement as it pertains to annual audited financial statements. A company that has no audit function lacks the ready means to detect structural problems until problems have occurred. A valid internal or external audit function and its use is a key indicator of competency of management which the Commissioner may consider in the review of an insurer.

**Results: Pass with recommendation**

**Observations:** The Company's financial statements are audited annually in accordance with W.Va. Code §33-3-14; the last such audit was conducted by S.R. Snodgrass, A.C., for the year ending December 31, 2005. The Company does not have a formal internal audit process. The Company's Board of Directors reviews the report on the annual audit and uses the report for the basis of business decisions.

**Recommendations:** It is recommended that the Company develop an internal audit program.

**Standard A 2***NAIC Market Conduct Examiners Handbook – Chapter VIII, § A, Standard 2*

The company has appropriate controls, safeguards and procedures for protecting the integrity of computer information.

*W.Va. Code St. R. §114-62-1, et seq.*

**Comments:** The review methodology for this standard is generic. The standard does not have a direct statutory requirement. Appropriate safeguards for protecting the integrity of computer information are a public protection issue as well as of the competency of management that the Commissioner may consider in the review of an insurer.

**Results:** Pass

**Observations:** Access to the Company's data files and systems is appropriately controlled with sufficient safeguards and procedures. The Company's systems are protected with password access and a network firewall. The Company maintains all records electronically. The Company software is integrated with a web based electronic repository for maintaining documentation. All documents relevant to a policy or claim are imported or scanned into the electronic file and are maintained on the internet through a third party vendor. Records are backed up daily by the Company and the vendor and are stored off-site. The software vendor maintains a complete copy of the Company's operating system.

**Recommendations:** None

**Standard A 3***NAIC Market Conduct Examiners Handbook - Chapter VIII, § A, Standard 3.*

The company has antifraud initiatives in place that are reasonably calculated to detect, prosecute, and prevent fraudulent insurance acts.

*W.Va. Code § 33-41-1et seq.*

**Comments:** The review methodology for this standard is generic. The standard does not have a direct statutory requirement. Written procedural manuals or guides and antifraud plans should provide sufficient detail to enable employees to perform their functions in accordance with the goals and direction of management. Appropriate antifraud activity is important for asset protection as well as policyholder protection and is an indicator of the competency of management, which the Commissioner may consider in the review of an insurer. Further, the insurer has an affirmative responsibility to report fraudulent activities of which it becomes aware.

**Results:** Pass

**Observations:** The Company does not have a formal antifraud plan. The Company does have antifraud initiatives in place that include the reporting of suspicious claims to the claims manager and to the President of the Company.

**Recommendations:** None

**Standard A 4***NAIC Market Conduct Examiners Handbook – Chapter VIII, § A, Standard 4***The company has a valid disaster recovery plan.**

**Comments:** The review methodology for this standard is generic. The standard does not have a direct statutory requirement. It is essential that the Company have a formalized disaster recovery plan that will detail procedures for continuing operations in the event of any type of disaster. Appropriate disaster recovery planning is an indicator of the competency of management, which the Commissioner may consider in the review of an insurer.

**Results: Pass**

**Observations:** All documents relevant to a policy or claim are imported or scanned into the electronic file and are maintained on the internet through a third party vendor. Records are backed up daily by the Company and the vendor and are stored off-site. The software vendor maintains a complete copy of the Company's operating system. In the event of a disaster or other hardship, Company records can be accessed remotely.

**Recommendations: None**

**Standard A 7***NAIC Market Conduct Examiners Handbook – Chapter VIII, § A, Standard 7***Records are adequate, accessible, consistent and orderly and comply with state record retention requirements.***W.Va. Code St. R. § 114-15-1, et seq.*

**Comments:** The review methodology for this standard is generic. The standard has a direct statutory requirement. This standard is intended to assure that an adequate and accessible record exists of the Company's transactions. The focus is on the records and actions considered in a market conduct examination such as, but not limited to, trade practices, claim practices, policy selection and issuance, rating, and complaint handling, etc. Inadequate, disorderly, inconsistent, and inaccessible records can lead to inappropriate rates and other issues, which can provide harm to the public.

**Results: Pass**

**Observations:** Files are maintained electronically and properly labeled for easy identification and access. Claim files were orderly and all pertinent events could be reconstructed from the documents the Company maintained. Policy files contained all pertinent information from which to make an underwriting decision. Files are retained in accordance with State record retention requirements.

**Recommendations: None**

**Standard A 8***NAIC Market Conduct Examiners Handbook – Chapter VIII, § A, Standard 8***The company is licensed for the lines of business that are being written.***W. Va. Code § 33-22-1 et seq*

**Comments:** The review methodology for this standard is generic. The standard has a direct statutory requirement. This standard is intended to assure that the Company operations are in conformance with the Company's certificate of authority.

**Results:** Pass

**Observations:** The Company's certificate of authority was reviewed and writings were compared with authorized lines and the NAIC annual statement. The Company writes homeowners, mobile homeowners, farm and small commercial risks. All policy forms used by the Company were approved by the Office of the Insurance Commissioner. All business written by the Company was in accordance with its Certificate of Authority. No exceptions were noted.

**Recommendations:** None

<b>Standard A 9</b> The Company cooperates on a timely basis with examiners performing the examinations.	<i>NAIC Market Conduct Examiners Handbook – Chapter VIII, § A, Standard 9</i> <i>W. Va. Code § 33-2-9 &amp; W. Va. Code St. R. § 114-15-1, et seq.</i>
---	---

**Comments:** The review methodology for this standard is generic. The standard has a direct statutory requirement. This standard is aimed at assuring that the Company is cooperating with the State in the completion of an open and cogent review of the Company's operations in West Virginia. Cooperation with examiners in the conduct of an examination is not only required by statute, it is conducive to completing the examination in a timely fashion and minimizing cost.

**Results:** Pass

**Observations:** The Company was cooperative and the examination proceeded in a cordial atmosphere. Data provided was responsive and timely.

**Recommendations:** None

<b>Standard A 12</b> The company has policies and procedures to protect the privacy of nonpublic personal information relating to its customers, former customers and consumers that are not customers.	<i>NAIC Market Conduct Examiners Handbook – Chapter VIII, § A, Standard 12</i> <i>W. Va. Code St. R. § 114-57-1, et seq.</i>
--	---

**Comments:** The review methodology for this standard is generic. The standard has a direct insurance statutory requirement. This standard is intended to assure that the Company provides adequate protection of information it holds concerning its policyholders and minimizes any improper intrusion into the privacy of applicants and policyholders.

**Results:** Pass with recommendation

**Observations:** The Company does not have written procedures for handling nonpublic personal information. The Company has regular meetings to instruct employees on the proper protection of private information. All employees must use a logon ID and password to access any information from the Company's electronic system. Information is not provided on the phone unless the policyholder can be identified. The Company provides policyholders, upon inception and at renewal, with the appropriate privacy notices regarding the collection and use of private financial information

**Recommendations:** It is recommended the Company adopt written procedures to protect the privacy of nonpublic personal information relating to its customers, former customers and consumers that are not customers.

## **B. COMPLAINT HANDLING**

**Comments:** Evaluations of the standards in this business area are based on Company responses to various information requests and the review of complaint files at the Company. In this business area, "complaints" include "grievances." W.Va. Code §33-11-4(10) requires the Company to "...maintain a complete record of all the complaints which it has received since the date of its last examination." The statute also requires that, "This record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of these complaints and the time it took to process each complaint," the definition of a complaint is, "...any written communication primarily expressing a grievance."

### **Standard B 1**

*NAIC Market Conduct Examiners Handbook – Chapter VIII, § B, Standard 1*

**All complaints are recorded in the required format on the company complaint register.**

*W. Va. Code § 33-11-4(10)*

**Comments:** The review methodology for this standard is sample and generic. The standard has a direct statutory requirement. This standard is concerned with whether the Company keeps formal track of complaints or grievances as required by statute. An insurer is required to maintain a complete record of all complaints received. The record must indicate the total number of complaints since the last examination, the classification of each complaint by line of insurance, the nature of each complaint, the disposition of each complaint, and the time it took to process each complaint.

**Results: Pass**

**Observations:** Complaints are received by the Company at its home office and the Insurance Commission. The Company maintains a paper hardcopy log of complaints in accordance with the requirements of the Insurance Commission. The Company registered three (3) complaints for the exam period. The complaint register contained the nature of the complaint, the line of business, disposition and the time required to process the complaint. The Company complaint register was reconciled with the Insurance Commission's register without exception.



**Table B1 Complaints Sample Results**

Type	Sampled	N/A	Pass	Fail	%Pass
2004-2005 Complaints	3	0	3	0	100%

**Recommendations:** None

**Standard B 2**

*NAIC Market Conduct Examiners Handbook – Chapter VIII, § B, Standard 2*

The company has adequate complaint handling procedures in place and communicates such procedures to policyholders.

*W. Va. Code § 33-11-4(10) & W. Va. Code St. R. §114-14-5.2*

**Comments:** The review methodology for this standard is generic. The standard has a direct statutory requirement. This standard is concerned with whether the Company has an adequate complaint handling procedure and whether the Company communicates complaint handling procedures to its policyholders.

**Results:** Pass

**Observations:** The Company does not have written complaint handling procedures in place. The Company follows verbal procedures to begin processing complaints within twenty four (24) hours of receipt and to provide a response within fifteen (15) working days as required by W. Va. Code St. R. § 114-14-5.2.

**Recommendations:** None

**Standard B 4**

*NAIC Market Conduct Examiners Handbook – Chapter VIII, § B, Standard 4*

The time frame within which the company responds to complaints is in accordance with applicable statutes, rules and regulations.

*W. Va. Code § 33-11-4(10) & W. Va. Code St. R. § 114-14-5.2*

**Comments:** The review methodology for this standard is sample. The standard does not have a direct statutory requirement however, timeliness is inferred. In the case of complaints concerning claims, direct time requirements are found in regulation. This standard is concerned with whether the Company responded to complaints timely. West Virginia's complaint handling section uses a fifteen (15) working day standard for responses to complaints.

**Results:** Pass

**Observations:** The Company responded within fifteen (15) working days to the Insurance Commission for all complaints received during the exam period.

**Table B 4 Complaints Sample Results**

Type	Sampled	N/A	Pass	Fail	%Pass
2004-2005 Complaints	3	0	3	0	100%

**Recommendations: None**

### **C. MARKETING AND SALES**

**Comments:** The evaluation of standards in this business area is based on a review of Company responses to information requests, questions, interviews, and presentations made to the examiner. This portion of the examination is designed to evaluate the representations made by the Company about its products. It is not typically based on sampling techniques, but can be. The areas to be considered in this kind of review include all media, written and verbal advertising and sales material.

<b>Standard C 1</b> <b>All advertising and sales materials are in compliance with applicable statutes, rules and regulations.</b>	<i>NAIC Market Conduct Examiners Handbook – Chapter VIII, § C, Standard 1</i> <i>W. Va. Code § 33-11-4(1), (2) &amp; W. Va. Code St. R. §114-14-1, et seq.</i>
--	---

**Comments:** Review methodology for this standard is sample and generic. The standard has a direct insurance statutory requirement. This standard is intended to assure compliance with the prohibitions on misrepresentation. It is concerned with all forms of media (print, radio, television, etc.).

**Results: Pass**

**Observations:** The Company does very limited advertising. The advertising program consists of the free distribution of pens and calendars that contain general Company information. These items are distributed at the home office and through the agency system.

**Recommendations: None**

<b>Standard C 2</b> <b>Company internal producer training materials are in compliance with applicable statutes, rules and regulations.</b>	<i>NAIC Market Conduct Examiners Handbook – Chapter VIII, § C, Standard 2</i> <i>W. Va. Code §33-11-4 &amp; W. Va. Code St. R. §114-14-1, et seq.</i>
---	--

**Comments:** Review methodology for this standard is generic. This standard has a direct insurance statutory requirement. This standard is intended to assure compliance with the prohibitions on misrepresentation. It is concerned with training or instructional representations made by the Company to its producers.

**Results: Pass**

**Observations:** The Company has no formal training materials or manual for producers. The agent training procedure consists of one-on-one training with all new agents. The training is accomplished by an agent visit to the home office, an underwriter's visit to an agent office or a teleconference. Agent training includes direction on the use of

underwriting guidelines, policy rating, Company website including online quoting and online application submission. Training materials were in compliance with statutes and rules. No exceptions were noted.

**Recommendations:** None

**Standard C 3**

*NAIC Market Conduct Examiners Handbook – Chapter VIII, § C, Standard 3*

Company communications to producers are in compliance with applicable statutes, rules and regulations.

*W. Va. Code § 33-11-4 & W. Va. Code St. R. §114-14-1, et seq.*

**Comments:** Review methodology for this standard is generic and sample. The standard has a direct insurance statutory requirement. This standard is intended to assure compliance with the prohibitions on misrepresentations. It is concerned with representations made by the Company to its producers other than in a training mode.

**Results:** Pass

**Observations:** Communications between the Company and its agents are normally accomplished through bulletins and various other internal memoranda delivered through email. The examiners reviewed these types of communications including those found in the policy files for adherence to both the West Virginia Unfair Trade Practices Act and the West Virginia Unfair Claims Settlement Practices Act; no exceptions were noted.

**Recommendations:** None

## **D. PRODUCER LICENSING**

**Comments:** The evaluation of standards is based on a review of Insurance Commission records and Company responses to information requests, questions, interviews, and presentations made to the examiners. This portion of the examination is designed to test the Company's compliance with West Virginia producer licensing laws and rules.

**Standard D 1**

*NAIC Market Conduct Examiners Handbook – Chapter VIII, § D, Standard 1*

Company records of licensed and appointed (if applicable) producers agree with department of insurance records.

*W. Va. Code § 33-12-3 & W. Va. Code St. R. § 114-2-1, et seq.*

**Comments:** This standard has a direct statutory requirement. This standard is aimed at assuring compliance with the requirement that producers be properly licensed and appointed. Such producers are presumed to be qualified, having met the test for such license. W.Va. Code § 33-12-3 states, "No person shall in West Virginia act as or hold himself out to be an agent, broker or solicitor nor shall any person in any manner solicit, negotiate, make or procure insurance covering subjects of insurance resident, located or to be performed in West Virginia, unless then licensed therefore pursuant to this article." The section further states, "No insurer shall accept any business from any agent who does not then hold an appointment as agent for such insurer pursuant to this article."

**Results: Pass**

**Observations:** The Company's list of current appointed producers was reconciled with the records of the West Virginia Insurance Commissioner and no exceptions were noted.

**Recommendations: None**

<b>Standard D 2</b>	<i>NAIC Market Conduct Examiners Handbook – Chapter VIII, § D, Standard 2</i>
The producers are properly licensed and appointed (if required by state law) in the jurisdiction where the application was taken.	
<i>W. Va. Code § 33-12-18</i>	

**Comments:** Review methodology for this standard is sample. This standard has a direct statutory requirement. As applied in this section, it is not file specific. This standard is aimed at assuring compliance with the requirement that producers be properly licensed and appointed for business solicited in West Virginia. The Company must appoint the producer within fifteen (15) days of the date the producer submits their first application to the Company.

**Results: Pass**

**Observations:** The Company utilizes independent agents to market and solicit insurance products in West Virginia. A review of fifty (50) new business policy files determined the producer writing the business was licensed with the proper authority and was properly appointed by the Company. No exceptions were noted.

**Table D 2 Producer Licensing Sample Results**

Type	Sampled	N/A	Pass	Fail	%Pass
2004-2005 New Business Policies	50	0	50	0	100%

**Recommendations: None**

<b>Standard D 3</b>	<i>NAIC Market Conduct Examiners Handbook -- Chapter VIII, § D, Standard 3</i>
Termination of producers complies with statutes regarding notification to the producer and notification to the state if applicable.	
<i>W.Va. Code § 33-12-25 &amp; W. Va. Code St. R. §114-2-1, et seq.</i>	

**Comments:** Review methodology for this standard is generic. This standard has a direct statutory requirement. It is generally file specific. This standard is aimed at both avoiding unlicensed placements of insurance as well as ensuring that producers are treated fairly with respect to terminations. W.Va. Code §33-12-25 requires the Company to notify the Commissioner (on a form prescribed by the Commissioner) within thirty (30) days of terminating the producer's authority. The same code section further requires the producer to be notified simultaneously.

**Results: Fail**

**Observations:** The Company terminated forty (40) producers in 2005. The Company notified the Insurance Commission of the terminations. The Company terminated one producer for cause and properly notified the Insurance Commission and the affected producer. The Company's procedure is to notify the producer if the termination is for cause. The Company does not notify producers if the termination is not for cause.

**Table D 3 Producer Terminations Letters**

Type	Sampled	N/A	Pass	Fail	%Pass
Producer Termination	40	0	1	39	3%

**Recommendations:** It is recommended the Company adopt and implement procedures to notify all producers upon termination, regardless of cause, in accordance with W.Va. Code §33-12-25.

<b>Standard D 4</b>	<i>NAIC Market Conduct Examiners Handbook -- Chapter VIII, § D, Standard 4.</i>
The company's policy of producer appointments and terminations does not result in unfair discrimination against policyholders.	
<i>W. Va. Code § 33-11-4(7)</i>	

**Comments:** This standard does not have a direct statutory requirement. It is generally not file specific. This standard is concerned with potential geographical discrimination through the insurer's selection and instructions to its producers. The tests are intended to expose indicators of such practice but may not be conclusive.

**Results:** Pass

**Observations:** The Company's agents can be found throughout the State of West Virginia. No unfair discrimination against policyholders can be inferred by the Company's producer appointment and termination records.

**Recommendations:** None

## **F. UNDERWRITING AND RATING**

**Comments:** The evaluation of standards in this business area is based on review of Company responses to information requests, questions, interviews, presentations made to the examiner, and file sampling. The underwriting and rating practices portion of the examination is designed to provide a view of how the Company treats the public and whether that treatment is in compliance with applicable statutes, rules and regulations. It is typically determined by testing a random sampling of files and applying various tests to the sampled files. Testing is concerned with compliance issues.

<b>Standard F 1: Rating Practices</b>	<i>NAIC Market Conduct Examiners Handbook -- Chapter VIII, §F, Standard 1</i>
The rates charged for the policy coverage are in accordance with filed rates (if applicable) or the company rating plan.	
<i>W. Va. Code § 33-11-4(7) &amp; W. Va. Code § 33-22-9</i>	

**Comments:** This standard is not a direct statutory requirement. It is file specific. It is necessary to determine if the Company is in compliance with the rating systems, which have been filed with and approved by the West Virginia Insurance Commission. Although Farmers Mutual Fire Insurance Companies are not required to file rates with the Insurance Commission, rates should not be unfairly discriminatory. Wide scale application of incorrect rates by a company may raise financial solvency questions or be indicative of inadequate management oversight. Deviation from established rating plans may also indicate a company is engaged in unfair competitive practices.

**Results:** Pass

**Observations:** A sample of fifty (50) new issue policy files was reviewed and the premium re-calculated to determine if the Company was following their underwriting guidelines. The Company consistently followed its underwriting guidelines. No exceptions were noted.

**Table F 1 Underwriting-Rating Practices**

Type	Sampled	N/A	Pass	Fail	%Pass
New Issue Policies	50	0	50	0	100%

**Recommendations:** None

<b>Standard F 2: Rating Practices</b> <b>Disclosures to insured concerning rates and coverage are accurate and timely.</b>	<i>NAIC Market Conduct Examiners Handbook -- Chapter VIII, §F, Standard 2.</i> <i>W. Va. Code § 33-11-4(7) &amp; W. Va. Code § 33-30-1 et seq.</i>
---	---

**Comments:** Review methodology for this standard is sample. This standard does not have a direct insurance statutory requirement. It is necessary to provide insureds with appropriate disclosures, both mandated and reasonable. Without appropriate disclosures, insureds find it difficult to make informed decisions. Concerns tested included accuracy of producer quotations as well as properly executed offers of mine subsidence coverage (Farmers Mutual Fire Insurance Companies may, but are not required to, offer mine subsidence coverage).

**Results:** Pass

**Observations:** A sample of fifty (50) new issue policy files was reviewed to determine if cost of coverage was accurately quoted. Quotations were reasonable and accurate, no exceptions were noted.

**Table F 2 Underwriting Disclosures**

Type	Sampled	N/A	Pass	Fail	%Pass
New Issue Policies	50	0	50	0	100%

**Recommendations:** None

<b>Standard F 3: Rating Practices</b>	<i>NAIC Market Conduct Examiners Handbook – Chapter VIII, §F, Standard 3.</i>
Company does not permit illegal rebating, commission cutting or inducements.	
<i>W. Va. Code § 33-11-4(8)</i>	

**Comments:** Review methodology for this standard is sample and generic. This standard has a direct insurance statutory requirement. It is generally file specific. Illegal rebating, commission cutting or other illegal inducements are a form of unfair discrimination.

**Results:** Pass

**Observations:** A review of fifty (50) new issue policy files as well as the agents' commission files found no evidence of rebating or commission cutting. All agents are paid the same percentage commission on all premiums received by the Company no matter the type of policy or coverage.

**Table F 3 Underwriting – Premium Modification**

Type	Sampled	N/A	Pass	Fail	%Pass
New Issue Policies	50	0	50	0	100%

**Recommendations:** None

<b>Standard F 5: Rating Practices</b>	<i>NAIC Market Conduct Examiners Handbook – Chapter VIII, §F, Standard 5</i>
Schedule rating or individual risk premium modification plans, where permitted, are based on objective criteria with usage supported by appropriate documentation.	
<i>W. Va. Code § 33-11-4(7)(c)</i>	

**Comments:** Review methodology for this standard is sample and generic. This standard has a direct insurance statutory requirement. Insurers must apply their scheduled credits and deviations on a non-discriminatory basis. Consistency is the key in avoiding the appearance or actuality of unfair discrimination.

**Results:** Pass

**Observations:** A review of the fifty (50) new business policy files did not indicate any deviation from the Company underwriting guidelines.

**Table F 5 Underwriting and Rating Sample Results**

Type	Sampled	N/A	Pass	Fail	%Pass
New Issue Policies	50	0	50	0	0%

**Recommendations:** None

<b>Standard F 11: Underwriting</b>	<i>NAIC Market Conduct Examiners Handbook – Chapter VIII, §F, Standard 11</i>
The company underwriting practices are not unfairly discriminatory. The company adheres to applicable statutes, rules and regulations and company guidelines in the selection of risks.	
<i>W. Va. Code § 33-11-4(7)</i>	

**Comments:** Review methodology for this standard is generic, sample, and electronic. This standard has a direct insurance statutory requirement. It is necessary to provide insureds with appropriate protection from unfair discrimination. Inconsistent handling of rating or underwriting practices, including request for supplemental information, even if not intended, can result in unfair discrimination.

**Results:** Pass

**Observations:** A sample of fifty (50) new issue policy files was reviewed and it was determined the Company was selecting risks and assigning rates according to Company guidelines.

**Table F 11 Underwriting - Risk Selection**

Type	Sampled	N/A	Pass	Fail	%Pass
New Issue Policies	50	0	50	0	100%

**Recommendations:** None

**Standard F 14: Underwriting Practices** NAIC Market Conduct Examiners Handbook – Chapter VIII, §F, Standard 14. Underwriting, rating and classification are based on adequate information developed at or near inception of the coverage rather than near expiration, or following a claim.

**Comments:** Review methodology for this standard is sample and generic. This standard does not have a direct insurance statutory requirement. In order to properly underwrite property insurance, an insurer is expected to gather accurate information upon submission of the application including perfected applications, photographs, and inspection reports.

**Results:** Pass

**Observations:** A sample of fifty (50) underwriting files was reviewed to determine if underwriting decisions were based on information received at inception of the policy rather than through audits or post claim. The Company uses inspections, photographs, and credit reports to supplement applications. The Company obtained sufficient information to underwrite policies at or near inception, no exceptions were noted.

**Table F 14 Underwriting - Information At Inception**

Type	Sampled	N/A	Pass	Fail	%Pass
New Issue Policies	50	0	50	0	100%

**Recommendations:** None

**Standard F 15: Underwriting** NAIC Market Conduct Examiners Handbook – Chapter VIII, §F, Standard 15. File documentation adequately supports decisions made.

**Comments:** Review methodology for this standard is sample. This standard does not have a direct insurance statutory requirement. Proper documentation of files reduces the likelihood of unfair discrimination.



**Results: Pass**

**Observations:** A review of fifty (50) new issue policy files indicated the Company had adequately documented adverse underwriting decisions. Documentation was sufficient to determine risk and all applications were complete.

**Table F 15 Underwriting File Documentation**

Type	Sampled	N/A	Pass	Fail	%Pass
New Issue Policies	50	0	50	0	100%

**Recommendations: None**

<b>Standard F 19: Underwriting Practices</b> NAIC Market Conduct Examiners Handbook – Chapter VIII, §F, Standard 19. The company does not engage in collusive or anti-competitive underwriting practices. W. Va. Code § 33-11-4(4)
--

**Comments:** Review methodology for this standard is generic. This standard has a direct insurance statutory requirement. This standard is intended to assure that any practice suggesting anti-competitive behavior is not tolerated. This includes engaging in collusive underwriting practices that may inhibit competition, e. g., entering into an agreement with other companies to divide the market within West Virginia by territory.

**Results: Pass**

**Observations:** A review of the sample of fifty (50) new issue policy files, underwriting guidelines and producer communications did not reveal any evidence of collusive or anti-competitive behavior on the part of the Company.

**Recommendations: None**

<b>Standard F 22: Termination Practices</b> NAIC Market Conduct Examiners Handbook – Chapter VIII, §F, Standard 22. Rejections and declinations are not unfairly discriminatory. W. Va. Code § 33-11-4(7) (c)
---

**Comments:** Review methodology for this standard is generic, sample and electronic. This standard does not have a direct insurance statutory requirement. Farmers' Mutual Fire Insurance Companies are not subject to W.Va. Code §33-17A-6, however they are subject to W.Va. Code §33-11-4(7)(c). Consistent application of the Company's underwriting rules is the primary method used to avoid unfair discrimination.

**Results: Not applicable – See comments below.**

**Observations:** The Company does not decline coverage or reject applications. The Company issues coverage and if it later determines the insured does not meet

underwriting guidelines the Company cancels the policy with a ten (10) day grace period notice.

**Recommendations:** None

<b>Standard F 23: Termination Practices</b> NAIC Market Conduct Examiners Handbook – Chapter VIII, §F, Standard 23 Cancellation/non-renewal and Declination notices comply with policy provisions and state laws and company guidelines. W. Va. Code § 33-11-4(7) (c)
---

**Comments:** Review methodology for this standard is sample and electronic. This standard does not have a direct insurance statutory requirement. As a Farmers' Mutual Fire Insurance Company, the Company is not subject to W.Va. Code §33-17A-4(a) and (b). Therefore, the Company has no direct statutory requirement to delineate reasons for declinations or cancellations on its notices. Conversely, this requirement may be implied in order to assure compliance with W.Va. Code §33-11-4(7)(c).

**Results:** Pass

**Observations:** A sample of fifty (50) canceled policy files was randomly selected and reviewed to determine if the reason for cancellation was valid according to policy provisions and state law. Cancellations were determined to be for valid reasons.

Table F 23 Underwriting – Canceled Policies

Type	Sampled	N/A	Pass	Fail	%Pass
Canceled policies	50	0	50	0	100%

**Recommendations:** None

<b>Standard F 24: Termination Practices</b> NAIC Market Conduct Examiners Handbook – Chapter VIII, §F, Standard 24 Cancellation/non-renewal notices comply with policy provisions and state laws, including the amount of advance notice provided to the insured and other parties to the contract. W. Va. Code § 33-22-15(c)
---

**Comments:** Review methodology for this standard is sample and electronic. This standard has a direct insurance statutory requirement. W. Va. Code §33-22-15(c) requires Farmers' Mutual Fire Insurance Companies to give each policyholder five (5) days notice of cancellation. Policyholders need sufficient time in the event of a cancellation or non-renewal to replace coverage.

**Results:** Pass

**Observations:** A review of fifty (50) files that were cancelled during the examination period revealed that the Company consistently gave a ten (10) day notice of cancellation.

Table F 24 Underwriting – Notice of Cancellation

Type	Sampled	N/A	Pass	Fail	%Pass
Canceled Policies	50	0	50	0	100%

**Recommendations: None**

**Standard F 25: Termination Practices** NAIC Market Conduct Examiners Handbook – Chapter VIII, §F, Standard 25.  
Unearned premiums are correctly calculated and returned to appropriate party in a timely manner and in accordance with applicable statutes, rules and regulations.

**Comments:** Review methodology for this standard is sample and electronic. This standard does not have a direct insurance statutory requirement as Farmers Mutual Fire Insurance Companies are not required to file rates. On the other hand, the Company has a contractual obligation to the policyholder to charge and refund the appropriate premium.

**Results: Pass**

**Observations:** A sample of fifty (50) canceled policy files was randomly selected and reviewed to determine if due, the correct unearned premium was calculated and returned. All unearned premiums were properly returned, no exceptions were noted.

**Table F 25 Underwriting and Rating Sample Results**

Type	Sampled	N/A	Pass	Fail	%Pass
Canceled Policies	50	0	50	0	100%

**Recommendations: None**

**Standard F 26: Terminations** NAIC Market Conduct Examiners Handbook – Chapter VIII, §F, Standard 26.  
Rescissions are not made for non-material misrepresentation.

**Comments:** Review methodology for this standard is sample and electronic. This standard does not have a direct insurance statutory requirement. A large number of rescissions can reflect inadequate underwriting practices.

**Results: Not Applicable – See comments below.**

**Observations:** The Company does not rescind policies or coverage. The Company issues coverage and if it later determines the insured does not meet underwriting guidelines or makes any material misrepresentations the Company cancels the policy.

**Recommendations: None**

## **E. CLAIMS PRACTICES**

**Comments:** The evaluation of standards in this business area is based on Company responses to information items requested by the examiner, discussions with Company staff, electronic testing of claim databases, and file sampling during the examination process. This portion of the examination is designed to provide a view of how the

Company treats claimants and whether that treatment is in compliance with applicable statutes and rules.

<b>Standard G 1</b>	<i>NAIC Market Conduct Examiners Handbook – Chapter VIII, §G, Standard 1</i>
<b>The initial contact by the company with the claimant is within the required time frame.</b>	
<i>W. Va. Code § 33-11-4(9) (b) &amp; W. Va. Code St. R. § 114-14-5.3</i>	

**Comments:** Review methodology for this standard is generic, sample, and electronic. This standard derives directly from W.Va. Code §33-11-4(9) (b) which prohibits, “failing to acknowledge and act reasonably upon communication with respect to claims arising under insurance policies.” West Virginia requires responses to claim communications within fifteen (15) working days of receipt of the communication.

**Results: Pass**

**Observations:** Random samples of fifty (50) paid claims and fifty (50) claims which were closed without payment during the exam period were reviewed to determine if the Company made timely contact with claimants. In all cases, the Company made the initial contact with the claimant within the required time frame.

**Table G 1 Claims-Initial Contact**

Type	Sampled	N/A	Pass	Fail	%Pass
2005 Paid claims	50	0	50	0	100%
2005 Claims closed without payment	50	0	50	0	100%
Total Reviewed	100	0	100	0	100%

**Recommendations: None**

<b>Standard G 2</b>	<i>NAIC Market Conduct Examiners Handbook – Chapter VIII, §G, Standard 2.</i>
<b>Timely investigations are conducted.</b>	
<i>W. Va. Code § 33-11-4(9) (c) &amp; W. Va. Code St. R. § 114-14-6.1</i>	

**Comments:** Review methodology for this standard is generic and sample. This standard has a direct statutory requirement. West Virginia requires a claim investigation within fifteen (15) working days of receipt of a notice of a claim.

**Results: Pass**

**Observation:** Random samples of fifty (50) paid claims and fifty (50) claims which were closed without payment during the exam period were reviewed to determine if the Company initiated investigations prompt and in accordance with statute. The Company initiated claim investigation timely and within the required timeframe. No exceptions were noted.

**Table G 2 Claims-Timely Investigations**

Type	Sampled	N/A	Pass	Fail	%Pass
2005 Paid claims	50	0	50	0	100%
2005 Claims closed without payment	50	0	50	0	100%
Total Reviewed	100	0	100	0	100%

**Recommendations: None**

**Standard G 3**

*NAIC Market Conduct Examiners Handbook – Chapter VIII, §G, Standard 3*

**Claims are resolved in a timely manner**

*W. Va. Code §33-11-4(9)(l) & (m) & W. Va. Code St. R. §114-14-6.2, 6.5 & 6.9*

**Comments:** Review methodology for this standard is generic, sample, and electronic. This standard has a direct statutory requirement. Failure to timely resolve claims can invite “bad faith” actions.

**Results: Pass**

**Observations:** The samples of fifty (50) paid and fifty (50) closed-without-payment claims were tested and a time study performed to determine if claims were resolved timely. Resolution time was measured in working days. Resolution time began once the claimant provided all necessary information to investigate and settle the claim. All claims were settled timely and in accordance with statutes and rules, no exceptions were noted.

**Table G 3 Claims Resolutions**

Type	Sampled	N/A	Pass	Fail	%Pass
2005 Paid claims	50	0	50	0	100%
2005 Claims closed without payment	50	0	50	0	100%
Total Reviewed	100	0	100	0	100%

**Recommendations: None**

**Standard G 4**

*NAIC Market Conduct Examiners Handbook – Chapter VIII, §G, Standard 4.*

**The company responds to claim correspondence in a timely manner.**

*W. Va. Code §33-11-4(9)(b) & W. Va. Code St. R. §114-14-5*

**Comments:** Review methodology for this standard is generic and sample. This standard has a direct statutory requirement. This standard derives directly from W. Va. Code §33-11-4(9) (b) which prohibits, “failing to acknowledge and act reasonably upon communication with respect to claims arising under insurance policies.” West Virginia requires responses to claim communications within fifteen (15) working days of receipt of the communication.

**Results: Pass**

**Observations:** The samples of fifty (50) paid and fifty (50) closed-without-payment claims were reviewed to determine if the Company promptly responded to correspondence received. The Company responded and with sufficient detail to correspondence received within the required fifteen (15) working day time-frame. No exceptions were noted.

**Table G 4 Claims Correspondence**

Type	Sampled	N/A	Pass	Fail	%Pass
------	---------	-----	------	------	-------

2005 Paid claims	50	0	50	0	100%
2005 Claims closed without payment	50	0	50	0	100%
Total Reviewed	100	0	100	0	100%

**Recommendations: None**

<b>Standard G 5</b> <b>Claim files are adequately documented.</b>	<i>NAIC Market Conduct Examiners Handbook – Chapter VIII, §G, Standard 5</i> <i>W. Va. Code St. R. § 114-14-3.1</i>
--	--

**Comments:** Review methodology for this standard is generic, sample, and electronic. This standard has a direct statutory requirement. Without adequate documentation, the various time frames required by statute and/or regulation cannot be demonstrated. West Virginia requires that an insurer's claim files shall contain all notes and work papers pertaining to the claim in such detail such that pertinent events and the dates of such events can be reconstructed.

**Results: Pass**

**Observations:** The samples of fifty (50) paid and fifty (50) closed-without-payment claims were reviewed to determine if documentation supported the ultimate claim determination. Claim files were orderly and all pertinent events could be reconstructed from the documents the Company maintained. In all cases, the claim file documentation sufficiently supported or justified the ultimate claim determination.

**Table G 5 Claim Documentation**

Type	Sampled	N/A	Pass	Fail	%Pass
2005 Paid claims	50	0	50	0	100%
2005 Claims closed without payment	50	0	50	0	100%
Total Reviewed	100	0	100	0	100%

**Recommendations: None**

<b>Standard G 6</b> <b>Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations.</b>	<i>NAIC Market Conduct Examiners Handbook – Chapter VIII, §G, Standard 6</i> <i>W. Va. Code § 33-11-4(9) &amp; W. Va. Code St. R. § 114-14-1, et seq.</i>
--	--

**Comments:** Review methodology for this standard is generic and sample. This standard has a direct statutory requirement. Concerns tested with this standard include:

- That claim handling meets West Virginia statutes and rules as applied to sales tax payment, correct payees, improper release of claims and proper payment of non-disputed claims.
- That coverage was checked for proper application of deductible or appropriate exclusionary language.
- That appropriate disclosures are given when a claim nears the applicable statute of limitations.

**Results: Pass**

**Observations:** The sample of fifty (50) paid claims was reviewed and determined to be in accordance with State law and policy provisions including settlement times and settlement amounts.

**Table G 6 Claim Settlement**

Type	Sampled	N/A	Pass	Fail	%Pass
2005 Paid claims	50	0	50	0	100%

**Recommendations: None**

<b>Standard G 7</b>	<i>NAIC Market Conduct Examiners Handbook – Chapter VIII, §G, Standard 7</i>
<b>Company uses the reservation of rights and excess of loss letters, when appropriate.</b>	
<i>W. Va. Code § 33-11-4(9) (e) &amp; W. Va. Code St. R. § 114-14-6. 5</i>	

**Comments:** Review methodology for this standard is sample and generic. This standard has a direct statutory requirement. Concerns tested for this standard include:

- The Company has reason to question coverage and has sent a reservation of rights.
- The Company sends an excess of loss letter when it is apparent that the loss will exceed policy limits.

**Results: Pass**

**Observations:** The samples of fifty (50) paid and fifty (50) closed-without-payment claims were reviewed to determine if the Company advised claimants of it's reservation of rights or the potential of a claim being in excess of loss allowed under policy provisions. Claims requiring a reservation of rights letter or an excess of loss letter were referred to and handled by the Company President. The Company issued reservation of rights and excess of loss letters where appropriate, no exceptions were noted.

**Recommendations: None**

<b>Standard G 8</b>	<i>NAIC Market Conduct Examiners Handbook – Chapter VIII, §G, Standard 8</i>
<b>Deductible reimbursement to insureds upon subrogation recovery is made in a timely and accurate manner.</b>	
<i>W. Va. Code § 33-11-4(9) (b)</i>	

**Comments:** Review methodology for this standard is generic. This standard has a direct statutory requirement.

**Results: Not reviewed**

**Observations:** Random samples of claims closed during the examination period were selected and reviewed. No subrogated claims were found in the samples.

**Recommendations: None**

<b>Standard G 9</b>	<i>NAIC Market Conduct Examiners Handbook – Chapter VIII, §G, Standard 9.</i>
<b>Company claim forms are appropriate for the type of product.</b>	

**Comments:** Review methodology for this standard is generic and sample. This standard does not have a direct statutory requirement.

**Results:** Pass

**Observations:** The samples of fifty (50) paid and fifty (50) closed-without-payment claims were reviewed and it was determined there were no inappropriate claim forms used.

**Recommendations:** None

<b>Standard G 11</b>	<i>NAIC Market Conduct Examiners Handbook – Chapter VIII, §G, Standard 11</i>
<b>Denied and closed-without-payment claims are handled in accordance with policy provisions and state law.</b>	
<i>W. Va. Code § 33-11-4(9) (e) &amp; (n) &amp; W. Va. Code St. R. § 114-14-6. 3, 6, 4 &amp; 6. 7</i>	

**Comments:** Review methodology for this standard is generic. This standard has a direct statutory requirement. Concerns tested for this standard include:

- Denied and closed-without-payment claims are based on policy provisions and comply with West Virginia statutes and regulations.
- Notices of claim denials reference specific policy provisions or exclusions.
- Claimants are provided with a reasonable basis for the denial when required by statute or regulation.

**Results:** Pass

**Observations:** A random sample of fifty (50) claims that were either denied or closed-without-payment during the examination period was reviewed for the above listed criteria. Thirty three (33) of the claims went unpaid because the claimant did not pursue benefits for various reasons including the fact that the amount of loss did not exceed the deductible. The Company provided reasonable basis for denial of benefits in all claims and correspondence to claimants. No exceptions were noted.

**Table G 11 Claims Denied or Closed Without Payment**

Type	Sampled	N/A	Pass	Fail	%Pass
2005 Claims closed without payment	50	0	50	0	100%

**Recommendations:** None

<b>Standard G 12</b>	<i>NAIC Market Conduct Examiners Handbook – Chapter VIII, §G, Standard 12</i>
<b>Canceled benefit checks and drafts reflect appropriate claim handling practices.</b>	
<i>W. Va. Code § 33-11-4(9) &amp; W. Va. Code St. R. § 114-14-1, et seq.</i>	



**Comments:** Review methodology for this standard is electronic and sample. This standard has a direct statutory requirement.

**Results:** Pass

**Observations:** The sample of fifty (50) paid claims was reviewed. The concerns tested for this standard include:

- That cancelled benefit checks include the correct payee and are for the correct amount.
- That payment checks do not indicate the payment is “final” when such is not the case.
- That checks or drafts do not purport to release the insurer from total liability when such is not the case.

Checks were in the correct amount and included the correct payee. No exceptions were noted.

Table G 12 Claims Sample Results

Type	Sampled	N/A	Pass	Fail	%Pass
2005 Paid Claims	50	0	50	0	100%

**Recommendations:** None

<b>Standard G 13</b> Claim handling practices do not compel claimants to institute litigation, in cases of clear liability and coverage, to recover amounts due under policies by offering substantially less than is due under the policy.	<i>NAIC Market Conduct Examiners Handbook – Chapter VIII, § G, Standard 12</i> <i>W. Va. Code § 33-11-4(9)(g)</i>
--	--

**Comments:** Review methodology for this standard is generic. This standard has a direct statutory requirement although compliance with this standard is usually judgmental rather than objective, especially as it pertains to third party claimants. The primary concern tested was that the Company processes and handles the claim appropriately and does not compel the claimant to institute a lawsuit to effect an appropriate settlement of the claim.

**Results:** Pass

**Observations:** The Company had one litigated claim for the exam period. The litigation was brought against the insured by a third party. No claim was filed with the Company prior to the lawsuit being filed. There were no problematic claim handling practices noted and the Company did not compel claimants to institute litigation in order to collect claim benefits.

**Recommendations:** None

## **SUMMARY OF RECOMMENDATIONS**

### **Recommendation A-1**

It is recommended that the Company develop an internal audit program.

### **Recommendation A-12**

It is recommended the Company adopt written procedures to protect the privacy of nonpublic personal information relating to its customers, former customers and consumers that are not customers.

### **Recommendation D-3**

It is recommended the Company adopt and implement procedures to notify all producers upon termination, regardless of cause, in accordance with W.Va. Code §33-12-25.

## EXAMINER'S SIGNATURE AND ACKNOWLEDGMENT

The examiner would like to acknowledge the cooperation and assistance extended by the Company during the course of the examination.

In addition to the undersigned, West Virginia Market Conduct Examiners, Charles L. Swanson and Mark A. Hooker AIE, CPCU also participated in the examination.

  
\_\_\_\_\_  
Timothy R. Nutt, CIE  
Examiner-in-Charge

## EXAMINER'S AFFIDAVIT

State of West Virginia

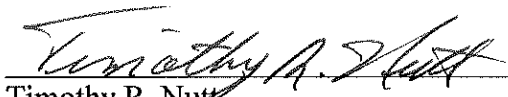
County of Kanawha

### EXAMINER'S AFFIDAVIT AS TO STANDARDS AND PROCEDURES USED IN AN EXAMINATION

I, Timothy R. Nutt, being duly sworn, states as follows:

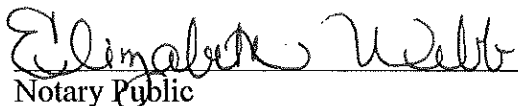
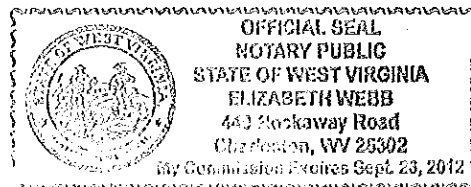
1. I have the authority to represent West Virginia in the examination of Panhandle Farmers Mutual Insurance Company of West Virginia.
2. I have reviewed the examination work papers and examination report, and the examination of Panhandle Farmers Mutual Insurance Company of West Virginia was performed in a manner consistent with the standards and procedures required by West Virginia.

The affiant says nothing further.



Timothy R. Nutt  
Examiner in Charge

Subscribed and sworn before me by Timothy R. Nutt on this 15th day of February, 2007.

  
Notary Public

My commission expires Sept. 26, 2012 (date).

*Panhandle Farmers Mutual Insurance Company*

*R.D. 1, Box 166A*

*Moundsville, WV 26041*

*In Business Since 1898*

*(304) 845-2649 Fax (304) 845-2967*

[www.panhandleins.com](http://www.panhandleins.com)

**RECEIVED**

MAR 08 2007

**WV LEGAL DIVISION**

March 6, 2007

Offices of the Insurance Commissioner  
Attn: Mark Hooker, Chief Market Conduct Examiner  
P.O. Box 50540  
Charleston, WV 25305-0540

Regarding: Market Conduct Exam

Dear Mr. Hooker,

This will acknowledge receipt of the Market Conduct Exam results for our company. Contained in the exam were three recommendations related to your findings. This letter is to inform you of our position and direction.

Relating to the Recommendation for section A-1, please be advised that our Company has created an internal audit program to fulfill the recommendations that were made under this section of the MCE.

Relating to the Recommendation for section A-12, please be advised that written procedures that been developed that outlines the company's direction to assure protection of nonpublic information that may be contained in our files.

Relating to the Recommendation for section D-3, prior to the exam we were sending notices to the terminated agent with cause with an explanation of the reason for the termination. During the exam, it was pointed out that we needed to send a notice to all agents being terminated regardless of cause. This process was adopted immediately and has now been fully implemented.

By virtue of this letter, we have no objections to the recommendations made and feel that the changes we have made should fully satisfy the recommendations noted in the exam results.

If you have any questions please feel free to contact me.

Sincerely,



Art Meadows, President/CEO